

## Report of the Directors

The directors herein present their first report together with the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2001.

### GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 8 August 2000 under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the main board of the Stock Exchange, the Company became the holding company of the Group on 5 December 2000. The shares of the Company were listed on the Stock Exchange on 20 December 2000.

Further details of the Reorganisation are set out in note 2 to the financial statements.

### PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 14 to the financial statements.

During the current year and prior year, the Group's turnover and operating profit are derived principally from the manufacturing and trading of golf equipment and accessories. An analysis of the Group's turnover by geographical area of its shipment is as follows:

|                        | <b>2001</b>           | 2000            |
|------------------------|-----------------------|-----------------|
|                        | <i>HK\$'000</i>       | <i>HK\$'000</i> |
| North America          | <b>191,883</b>        | 157,117         |
| Europe                 | <b>54,389</b>         | 29,523          |
| Asia (excluding Japan) | <b>36,405</b>         | 11,979          |
| Japan                  | <b>9,488</b>          | 7,251           |
| Others                 | <b>8,050</b>          | 5,670           |
|                        | <b><u>300,215</u></b> | <u>211,540</u>  |

The contribution to operating profit by geographical area is substantially in line with the overall rate of contribution to turnover and accordingly a geographical analysis of contribution is not presented.

## Report of the Directors

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 24 to 64.

During the year, special dividends of HK\$26,500,000 were declared by Sino Golf Manufacturing Company Limited ("Sino Golf Manufacturing"), a wholly-owned subsidiary of the Company, to its then shareholders out of the retained profits of Sino Golf Manufacturing prior to the listing of the Company.

The directors recommend the payment of a final dividend of HK7.0 cents per ordinary share in respect of the year, to shareholders on the register of members on 2 August 2001. This recommendation has been incorporated in the financial statements.

### FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on page 65. This summary is not part of the audited financial statements.

### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

### SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 March 2001 are set out in note 14 to the financial statements.

### BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Group are set out in notes 21 and 22 to the financial statements.

## Report of the Directors

### SHARE CAPITAL

Details of movements in the Company's share capital during the period from 8 August 2000 to 31 March 2001, together with the reasons therefor, are set out in note 24 to the financial statements.

### RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 25 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$15,782,000. In addition, under the laws of Bermuda, the Company's share premium account, in the amount of HK\$56,126,000, may be distributed in the form of fully paid bonus shares.

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 68% of the total sales for the year and sales to the largest customer included therein amounted to 30%.

Purchases from the Group's five largest suppliers accounted for 54% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

Nikko Bussan Co., Ltd., a company in which Matsuura, an executive director of the Company, has a beneficial interest, is one of the Group's five largest customers and suppliers.

Save as disclosed above, at 31 March 2001, none of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## Report of the Directors

### DIRECTORS

The directors of the Company during the period from 8 August 2000 to 31 March 2001 were:

#### Executive directors:

|                |                                  |
|----------------|----------------------------------|
| Augustine Chu  | (appointed on 18 September 2000) |
| Matsuura       | (appointed on 18 September 2000) |
| Simon Chu      | (appointed on 18 September 2000) |
| CHANG Hua Jung | (appointed on 18 September 2000) |

#### Non-executive director:

|                     |                                |
|---------------------|--------------------------------|
| Carl Thomas McMANIS | (appointed on 5 December 2000) |
|---------------------|--------------------------------|

#### Independent non-executive directors:

|               |                                |
|---------------|--------------------------------|
| Yasumori MUTA | (appointed on 5 December 2000) |
| CHOY Tak Ho   | (appointed on 5 December 2000) |
| ZHU Wan Li    | (appointed on 5 December 2000) |

In accordance with articles 87 of the Company's bye-laws, Yasumori Muta and Choy Tak Ho will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, no directors had a material beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### DIRECTORS' SERVICE CONTRACTS

Each of the directors has entered into a service contract with the Company. The contracts of executive directors have an initial period of three years commencing on 1 December 2000 and will continue thereafter unless terminated in accordance with the terms of the service contracts. The contracts of non-executive directors were effective from 1 December 2000. They are required to offer themselves for re-election at the forthcoming annual general meeting.

## Report of the Directors

Save for the above, none of the directors of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

### DIRECTORS' INTERESTS IN SHARES

As at 31 March 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

#### (i) The Company

|                         | Number of shares held |                          |
|-------------------------|-----------------------|--------------------------|
|                         | Personal interests    | Corporate interests      |
| Executive directors:    |                       |                          |
| Augustine Chu           | 5,136,263             | 200,249,775 <sup>#</sup> |
| Matsuura                | 10,031,400            | 200,249,775 <sup>#</sup> |
| Simon Chu               | 2,008,237             | — <sup>#</sup>           |
| CHANG Hua Jung          | 210,793               | —                        |
| Non-executive director: |                       |                          |
| Carl Thomas McMANIS     | 363,022               | —                        |

<sup>#</sup> The shares of the Company are held by CM Investment Company Limited, a company incorporated in the British Virgin Islands, of which approximately 51.17% and approximately 48.83% of its issued share capital are owned by A & S Company Limited and Matsuura, respectively. A & S Company Limited is a company incorporated in the British Virgin Islands and owned as to approximately 64.00% by Augustine Chu, approximately 21.71% by Simon Chu and 14.29% by their another family member. The interests of Augustine Chu, Matsuura and Simon Chu in the 200,249,775 shares of the Company therefore duplicate each other.

## Report of the Directors

### (ii) Associated corporation

3,456,027 non-voting deferred shares in Sino Golf Manufacturing are owned as to 1,190,607 shares by Augustine Chu, as to 1,841,323 shares by Matsuura, as to 414,297 shares by Simon Chu, as to 3,600 shares by Chang Hua Jung and as to 6,200 shares by Carl Thomas McManis.

Save as disclosed above, none of the directors and their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company and its associated corporations as defined in the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the Company's share option scheme approved on 5 December 2000, the directors may, at their absolute discretion, grant options to any executive directors and full-time employees of the Group to subscribe for shares in the Company. No options were granted during the period ended 31 March 2001.

Subsequent to the balance sheet date, on 28 April 2001, 1,750,000 share options in total were granted to the executive directors of the Company as follows:

|                      | <b>Number of<br/>share options</b> |
|----------------------|------------------------------------|
| Executive directors: |                                    |
| Augustine Chu        | 550,000                            |
| Matsuura             | 300,000                            |
| Simon Chu            | 500,000                            |
| CHANG Hua Jung       | 400,000                            |
|                      | <hr/>                              |
|                      | 1,750,000                          |
|                      | <hr/> <hr/>                        |

The above options were granted at an exercise price per share of HK\$0.62. The cash consideration paid by each director for the options granted was HK\$1. The options can be exercised at any time in the next nine years commencing on 28 April 2001. Details of the share option scheme are set out in note 24 to the financial statements.

## Report of the Directors

Other than in connection with the Reorganisation in preparation for the Company's initial public offering, at no time during the period from 8 August 2000 to 31 March 2001 was the Company, its holding companies or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance:

| Name of shareholder                   | Number of shares | %     |
|---------------------------------------|------------------|-------|
| CM Investment Company Limited         | 200,249,775      | 66.75 |
| A & S Company Limited ( <i>Note</i> ) | 200,249,775      | 66.75 |

*Note:* The interests disclosed include the shares owned by CM Investment Company Limited. CM Investment Company Limited is held directly as to 51.17% by A & S Company Limited. Accordingly, A & S Company Limited is deemed to be interested in shares owned by CM Investment Company Limited.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to section 16(1) of the SDI Ordinance.

### CONNECTED TRANSACTIONS

Details of connected transactions of the Group for the year ended 31 March 2001 are set out in note 30 to the financial statements.

The independent non-executive directors of the Company have reviewed and confirmed that the aforesaid connected transactions entered into by the Group were (i) in the ordinary course of the Group's business either on normal commercial terms, or terms that are fair and reasonable so far as the shareholders of the Company are concerned; (ii) in accordance with the terms of the relevant agreements governing the transactions; and (iii) within the prescribed limit as set out in the waiver letter in respect of connected transactions granted by the Stock Exchange.

## Report of the Directors

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

### **RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme of the Group and the employer's retirement benefits scheme contributions charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 8 August 2000 to 31 March 2001.

### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules from the date of listing.

### **AUDIT COMMITTEE**

Pursuant to the Listing Rules, an audit committee comprising two independent non-executive directors, namely Choy Tak Ho and Yasumori Muta, was established on 5 December 2000.

By reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the Company. The principal activities of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.



## Report of the Directors

### AUDITORS

During the year, Ernst & Young were appointed as the first auditors of the Company. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chu Chun Man, Augustine**

*Chairman*

Hong Kong

3 July 2001